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polymer corporation limited annual report / 1971

directors

PIERRE R. GENDRON

Montreal — President, Pulp and Paper Research Institute of Canada; Director, Canadian Patents and Development Limited and Microsystems International Limited; member, Science Council of Canada.

W. LADYMAN

Toronto — International Vice President, International Brotherhood of Electrical Workers; Vice President, Canadian Labour Congress; Director, Ontario Housing Corporation; member, Economic Council of Canada.

PIERRE LORANGE

Montreal — member of Montreal City Council; Executive member, Société des Hommes d'affaires de l'Est de Montréal; President, Les Sportifs d'Hochelaga; member, La Caserne Board of Control.

WILLIAM STEWART McGREGOR

Edmonton — President and Managing Director, Numac Oil & Gas Ltd.; President, Jasper Sky Tram Ltd.; Director, McGregor Johanson Contracting Ltd., Western Canadian Resources Funds Limited and Northwestern Utilities Limited.

W. HAROLD REA

Toronto — Chairman, Great Canadian Oil Sands Ltd.; Vice President and Director, the Mutual Life Assurance Co. of Canada.

E. R. ROWZEE

Sarnia — Chairman of the Board of Directors and Chief Executive Officer, Polymer Corporation Limited; member, Board of Governors, University of Windsor and Ontario Research Foundation.

I. C. RUSH

Sarnia — President, Polymer Corporation Limited.

F. H. SHERMAN

Hamilton — President, Chief Executive Officer, Dominion Foundries and Steel Limited; Director, Bank of Nova Scotia, National Steel Car Corporation, Canron Limited.

RON W. TODGHAM

Windsor — President, Chrysler Canada Ltd.; Director, Union Gas Co. of Canada Limited, and Crown Trust Company.

F. CAMERON WILKINSON

Vancouver — President, Wilkinson Company Limited; Director, B. C. Sugar Refinery Limited, Canadian Sugar Factories Limited, Crown Zellerbach Canada Limited, Garibaldi Lifts Limited; member of Vancouver Advisory Board, National Trust Company Limited.

officers

E. R. ROWZEE

CHAIRMAN OF THE BOARD AND
CHIEF EXECUTIVE OFFICER

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PRESIDENT

R. S. DUDLEY
GROUP VICE PRESIDENT
Rubber and latex

R. E. HATCH
GROUP VICE PRESIDENT
Plastics, building systems,
information processing

G. BRACEWELL
VICE PRESIDENT
Corporate planning

E. J. BUCKLER
VICE PRESIDENT
Research and development

R. J. LHONNEUX
VICE PRESIDENT
European operations

C. A. McKENZIE
VICE PRESIDENT
North and South America operations

J. R. PROVO
VICE PRESIDENT
Plastics

H. W. SUTERS
VICE PRESIDENT
Building systems

STANLEY WILK
VICE PRESIDENT
Corporate finance

W. J. DYKE
SECRETARY AND
CHIEF LEGAL OFFICER

report to the shareholder

*The Honourable James Richardson,
Minister of Supply and Services,
Ottawa, Canada.*

Dear Mr. Richardson:

On behalf of the Board of Directors, the Annual Report of Polymer Corporation Limited and its consolidated subsidiaries for the year ended December 31, 1971 is presented herewith.

The Company earned a profit after taxes of \$0.5 million for the year compared to \$7.1 million in 1970. It was derived from sales revenue and other income of \$174.7 million, 11% higher than the previous year. However, the net income before provision for taxes and extraordinary items was \$0.7 million, compared to \$9.1 million in 1970. The earnings level for 1971 is the lowest recorded since the Company's financial re-organization in 1952 and is obviously unsatisfactory. It is far from adequate to support the future capital requirements for Polymer to achieve the growth in business and employment required to serve its customers, shareholder, employees and the communities in which it operates.

A discussion of these results and of the more important events of the year is contained in the Financial Review and Review of Operations sections of this report. In the following we wish to examine in broad perspective certain key factors affecting Polymer's activities and the responses which have been identified as the situations developed.

For ten years the synthetic rubber industry has been growing in an atmosphere of intensive competition on a world-wide basis. Polymer has maintained its position as one of the leading suppliers by introducing new technology and new products and building

the production capacity required to meet market demand. However, synthetic rubber profit margins have steadily declined. The downward trend in POLYSAR product prices coupled with rising costs have been only partially offset by growth in volume and vigorous work effectiveness programs. Polymer recognized that it was in a vulnerable position and that it would be unwise to rely over the longer term on opportunities for growth and earnings in the single industry represented by synthetic rubber. The Company, therefore, moved to widen its base through diversification, as discussed in the last two annual reports.

Another factor is pertinent. Polymer is part of the Canadian petrochemical industry which is troubled by inaccessibility to large markets and associated disadvantages of scale, coupled with high feedstock and energy costs. The industry faces the probability that its competitiveness will weaken further as more attractive conditions are made available to the U.S. petrochemical industry in regard to cost of feedstocks, favourable tax treatment of growth in its export activity and the investment tax credit. These factors represent an environment marked by over-capacity, strong competitive forces and resulting instability.

These problems coupled with significant changes in international monetary and trade conditions are not unique to Polymer. They are giving rise to deep concern to many segments of Canadian industry. In chemicals, for example, the rate of growth of imports in the past four years has risen more than twice as fast as domestic demand. In the same period, the adverse annual trade balance in chemicals has grown from a deficit of around \$250 million to around \$350 million and could, in the absence of corrective action, approach \$500 million by 1975. Reductions in Canadian operations and employment



have recently taken place, symptomatic of a deterioration in which, finally, profits have failed to keep pace with rising costs in an environment of accelerated competition.

Polymer's profit generation during 1971 was adversely affected by several external factors. North America experienced an extended period of low economic activity and competition developed from low priced rubber shipped into Canada. In addition, the further strengthening in value of the Canadian dollar against the U.S. dollar and the import surcharge levied by the U.S. during the last four months of the year reduced Polymer's net income by over \$3 million. In fact, when measured from a 92½ U.S. cent Canadian dollar base, this reduction in net income becomes about \$6 million for 1971. In addition, the higher value of the Canadian dollar encouraged competition from imports and had the classic effect of lowering the price structure in Canada.

During 1971 several key actions were taken. A re-organization was implemented designed to give clear focus to the management of the original businesses of synthetic rubber and latex and the new and different business areas - Plastics, Building Systems and Information Processing - where the Company is now firmly established. The support activities required were reviewed and adjusted to meet the demands of the several business thrusts. Throughout the Company's operations emphasis was continued on improved work effectiveness.

Emphasis was placed on strengthening each of the new businesses so they could move to becoming profitable and self sustaining. During the year, two companies in the plastics business were acquired, construction was started on the first plant to produce lightweight concrete housing modules in

Milton, Ontario, and activities in the information processing field were strengthened in Canada and expanded to the United Kingdom. In 1971, about 12% of Polymer's sales was derived from these new business areas and in 1972 it is projected to reach nearly 20%, with further growth to follow over the coming years.

On a broader front, Polymer, a member of the Canadian Chemical Producers' Association, played a key role in the joint industry-government study which led to policy recommendations to the Federal government aimed at ensuring survival and growth of a competitive petrochemical industry in Canada. Strong and prompt government response to these recommendations is urgently needed. More directly, the Company is a member of a consortium of chemical producers actively engaged in studying the feasibility of a world-scale petrochemical facility for the Sarnia area.

The future outlook as we see it in the short-term is one of recovery in the North American economy and some slowdown in growth rates elsewhere. Western economies will be occupied in fighting inflation pressures from excessive demands related to standard of living expectations and to social, urban and pollution problems, on top of efforts to achieve higher employment. Authorities expect Western world rubber consumption to rise by 6 percent with the synthetic rubber segment approaching an increase of 7 percent. Strong demand is anticipated in plastics, the needs in the housing sector are expected to continue unabated, while information processing services should benefit from the growth and increasing complexity of modern business.

Within this environment, Polymer's task is difficult but achievable. The prime objective must be to increase profit performance. This is vital for the Company's existence and continuing development. To achieve this we will take every action which an experienced and dedicated organization can devise to improve the earnings from our synthetic rubber business while the other major business thrusts are being developed and expanded. We shall continue to develop or acquire technology world-wide and to apply this technology both in Canada and on an international basis. The Company has 25 years of successful experience as a world-wide marketer and manufacturer of synthetic rubbers. We are confident we can apply this competence in the development of our new businesses.

In a year which called upon all of us to face new and trying problems, we wish to recognize and commend the contribution made by Polymer people throughout the world. To our customers, distributors and suppliers, we express appreciation for their continued support and understanding.

E. R. Rowzee,
Chairman of the Board.

I. C. Rush,
President.

Sarnia, Ontario,
February 11, 1972.

NET INCOME after tax for 1971 was \$0.5 million, equivalent to \$0.25 per share. These results compare with \$7.1 million or \$3.53 per share in 1970. A dividend payment of \$0.5 million or \$0.25 per share was made during the year. The 1970 dividend payment had been \$1.50 per share.

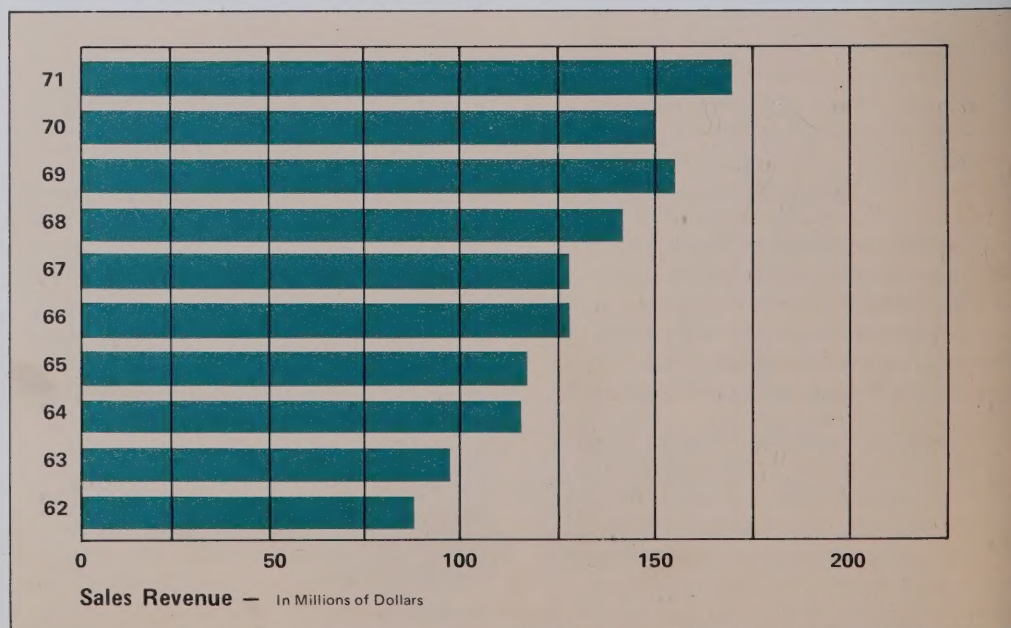
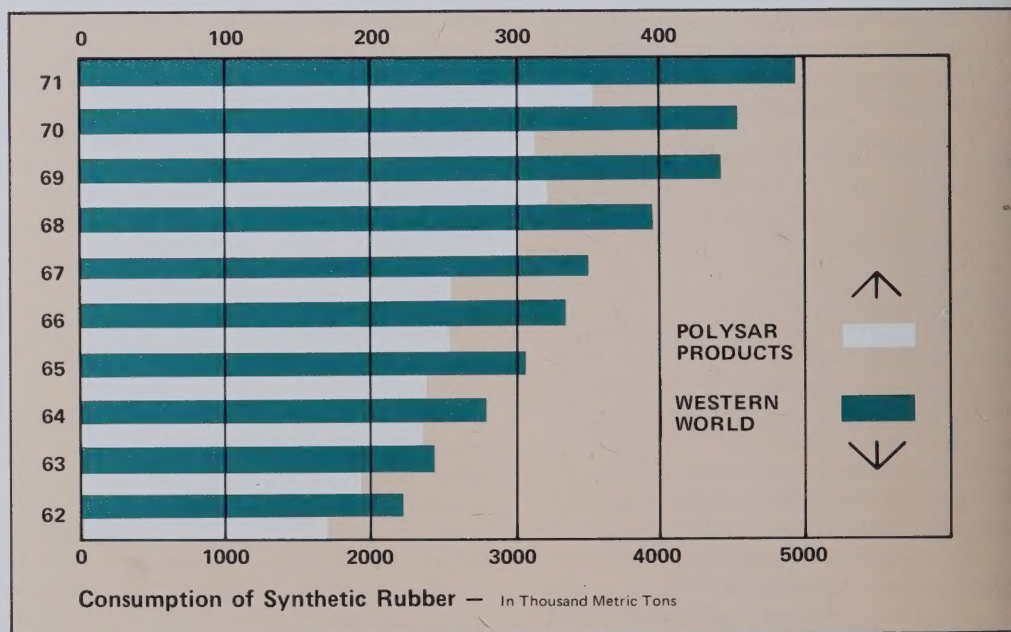
TOTAL INCOME was \$174.7 million in 1971 compared to \$156.7 million in 1970. This growth was the result of an increase of nearly \$20 million in sales of products and services, partially offset by a decline in interest income and revenue from technology sales. Sales revenue represents a gain of 13% over the previous year, and is the highest achieved in the Company's history.

Growth in rubber and latex sales volumes amounted to 14% over 1970. Polymer's share of the Western world market for these products was maintained at the average for the past five years as indicated by the accompanying chart. However, sales revenue increased by only 7%, reflecting not only lower prices in several areas as a result of an over-supply position for some products and consequent competitive pressure, but also changes in international currency values.

A gain in revenue of about 75% over the previous year was achieved by the plastics business, reflecting growth in all lines together with the contribution from acquisitions made during the year.

During 1971 the sales revenue from information processing activities was not consolidated since the Company will not complete payment for a majority position until 1972. Building systems activities are not scheduled to produce sales revenue until 1972.

COST OF SALES at \$148.0 million was equivalent to 87% of sales, up from the previous year's level of 83%. Although significant improvements in controllable costs



were achieved, they were offset by many factors including higher costs of raw materials and supplies, the write-off of certain development costs, and the surcharge on exports to the U.S. which amounted to \$1.1 million. Partial recovery of the latter under the Employment Support Act has been recognized. The provision of \$13.5 million for depreciation was about \$0.4 million higher than the previous year.

SELLING, ADMINISTRATION AND RESEARCH expenses amounted to \$20.9 million during 1971, remaining at about 12% of sales level. The total dollar increase in these cost elements over 1970 resulted from the consolidation of newly acquired companies, and higher wage and salary costs.

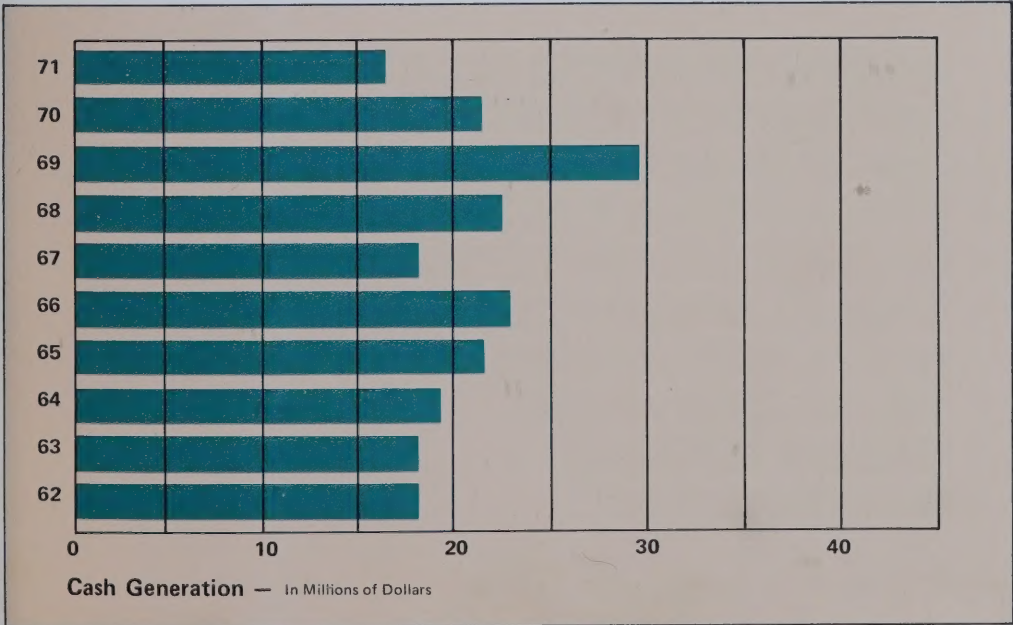
INTEREST expense at \$5.1 million increased about 10% over the previous year. The long-term debt level and its servicing cost

was essentially unchanged but short-term financing was used to a greater extent.

INCOME TAXES in the amount of \$1.2 million were provided for in respect of 1971. The Polysar Group of companies carries on operations in a number of tax jurisdictions and makes full provision for tax liability in each company. Thus, the consolidated tax provision is derived from actual profits in a number of locations involving significantly different tax rates and regulations. Future tax liabilities which were established in accordance with widely accepted tax accounting practices when the Company was operating at a higher profit level were reduced by \$1.6 million.

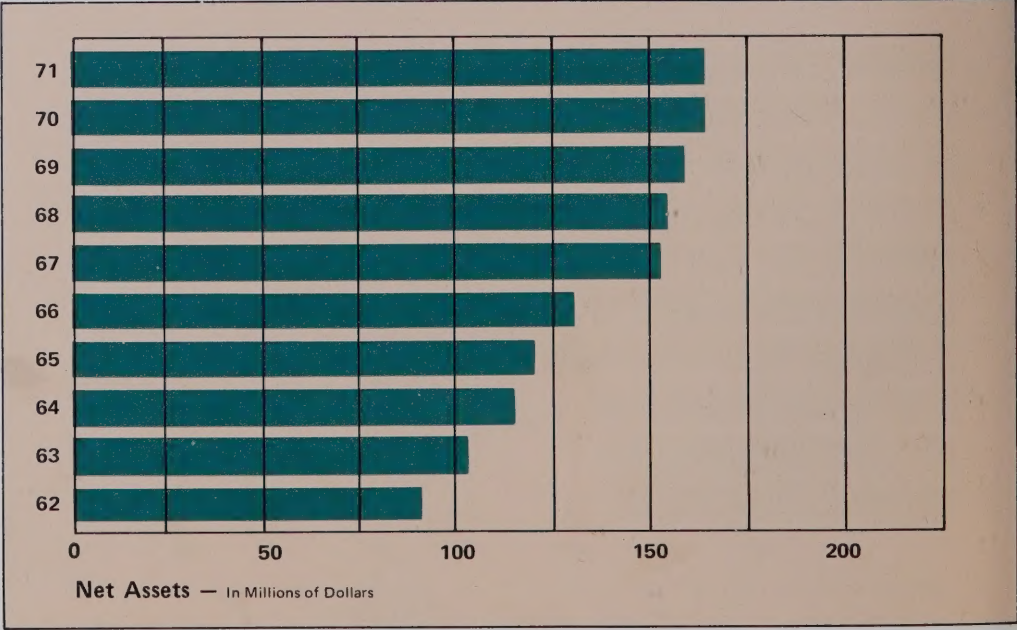
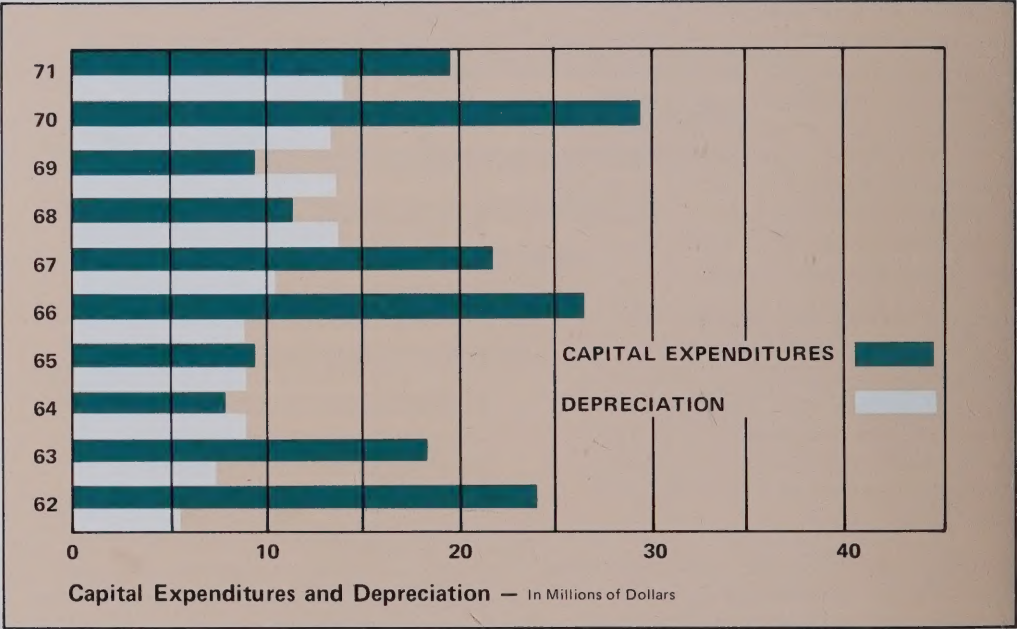
EXTRAORDINARY ITEMS, including currency revaluation gains and the write-down of certain investments, decreased net income by \$0.8 million.

CASH GENERATION from operations was \$16.1 million, a substantial decline from 1970 because of the reduced earnings. Repayment of long-term debt amounted to \$7.9 million. Additional cash requirements were provided by new long-term debt of \$9.6 million, including \$3.0 million already placed by companies acquired during the year.



CAPITAL EXPENDITURES in 1971 amounted to \$19.5 million. This included an investment of \$2 million in bonds issued by the Chattanooga Development Board, which constructed the latex plant operated by a subsidiary company under a lease agreement. The Company administered the spending of nearly \$9 million for this plant during the year. Expenditures of about \$10 million were made on the rubber and latex facilities in Canada, France and Belgium for added production capacity, pollution abatement programs and for improvement of technical service facilities. Two companies were acquired in 1971 as part of the growth and expansion of the plastics business. Additional equity, in line with a commitment made in 1970, was taken in the Canadian information processing company. Construction of the first plant to manufacture modular housing units in Canada commenced late in the year.

WORKING CAPITAL totalled \$52.6 million at December 31, 1971, \$4.4 million less than at the previous year-end. This reduction reflects a liquidation of cash and short-term investments amounting to \$11.6 million, a decrease in current debt of \$6.0 million and an increase in the net of receivables, inventories and payables consistent with the increased volume of business. At year-end the current ratio was 1.9:1.



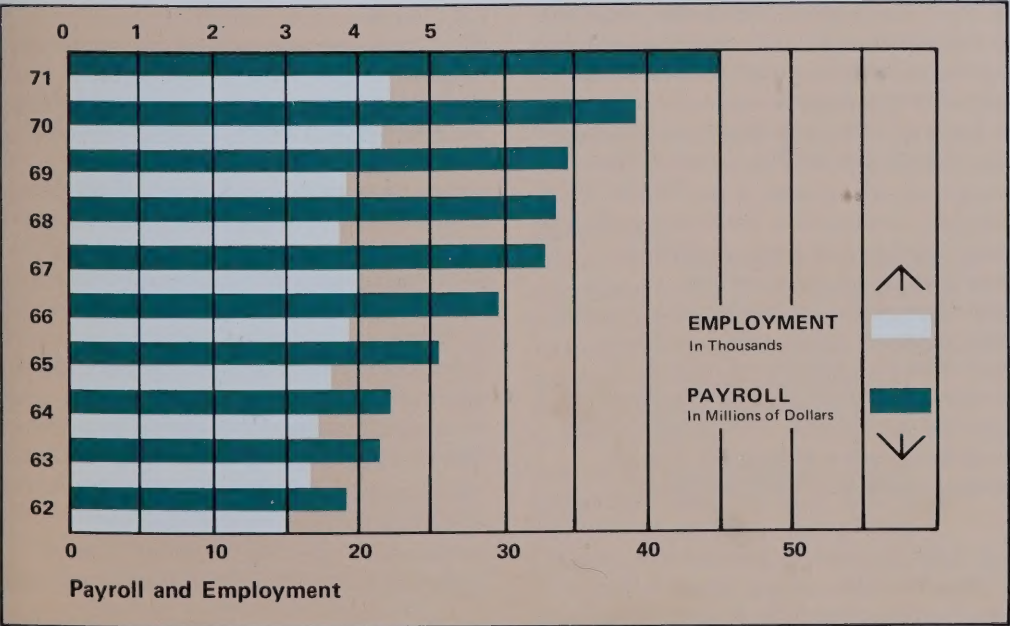
ALL COSTS were affected by the higher wage, salary and benefit payments incurred throughout the world operations of Polymer. Average payment per employee increased about 9% and, in total, these costs amounted to \$45.1 million, an increase of \$5.5 million over the previous year. The number of employees associated with companies acquired during the year and the requirements for staffing major plant expansions amounted to 475 but strict control measures and a reorganization implemented late in the year limited total staff growth to 137.

THE CANADIAN SITUATION gives rise to serious concern. More than half of the Company's employees are located in Sarnia and this manufacturing operation supplies products which account for one-half of the Corporation's world-wide sales. The rising costs of raw materials and energy from

already high levels and increased payroll costs are important factors in this situation. In addition, competition from rubber imports has limited domestic sales and required price reduction while the strong Canadian dollar has severely eroded sales revenue and profits from export markets. Over the past two years profit contribution at the gross margin level has declined about 40% and the once healthy profit position of the Company's Sarnia operations has been virtually eliminated. A wide range of programs has been initiated to arrest this decline and restore profitability to a more acceptable level.

ECONOMIC and MONETARY FACTORS affected Polymer's earnings performance in 1971. Some were specific to the Company, some reflected the state of the world-wide synthetic rubber industry and others represented the effect of the business and

political environment, in Canada and throughout the world. Currency realignments which have taken place during 1970 and 1971 are a factor which affects all phases of the operation of a multinational company but the key factor for Polymer is the Canadian-U.S. dollar relationship. The rise of the Canadian dollar to approximate parity with the U.S. dollar is an adverse effect while the realignment of other currencies against the U.S. dollar in December, 1971 is a positive factor. Although the 1971 effect of the latter was small, except for a favourable revaluation of certain Balance Sheet items, the on-going effect will provide some benefits during 1972 if the present positions relative to the Canadian dollar are maintained.

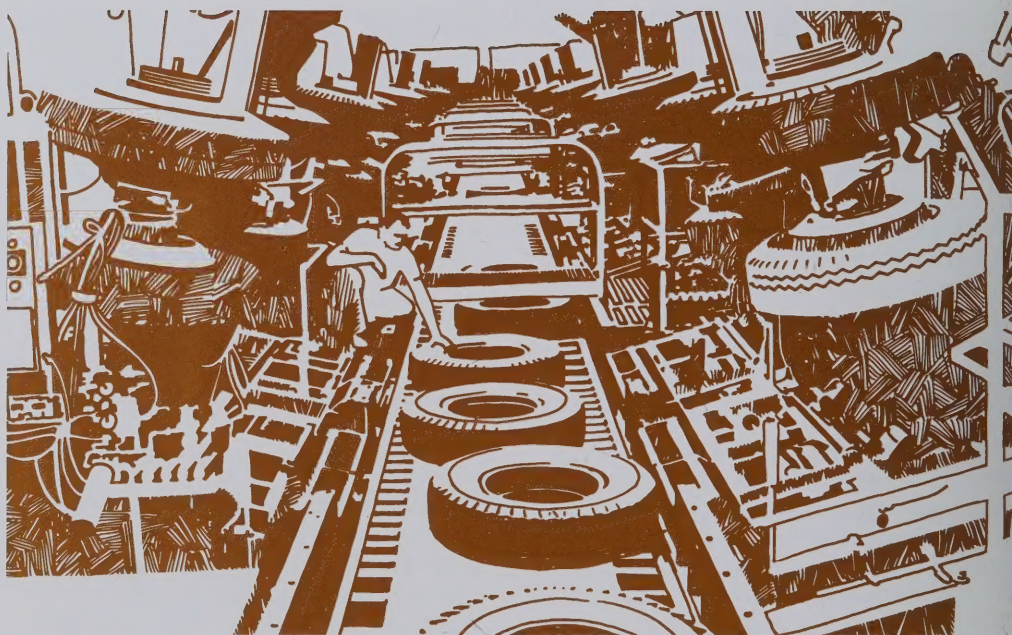


RUBBERS

Polymer manufactures a wide variety of synthetic rubbers for use in many products. General-purpose SBR grades (S, KRYLENE, KRYMIX, KRYNOL) find application in tires, mechanical and electrical goods, footwear and in many other moulded, extruded or calendered rubber items. Oil-resistant types (KRYNAC) are provided for those end-products exposed to oils, fuels and lubricants. Polymer is also a major world producer of butyl rubber, the outstanding qualities of which include low permeability to gases and vapors — making it the ideal material for tire inner tubes — excellent electrical resistance and ability to withstand the damaging effects of ozone, sunlight and high temperatures. Stereospecific, solution rubbers include a polybutadiene type (TAKTENE) which is used in tires and for polystyrene modification and synthetic balata (TRANS-PIP) used in golf ball covers.

In 1971 an increase in total volume of rubber sales was achieved despite increased competition resulting from a world over-supply position. Revenue, however, was up only marginally and profit margins were narrowed as a result of the depressed prices and other factors noted in the Financial Review.

Total capital spending related to rubber products was close to \$6 million during the year. In Canada, the second phase of an expansion program to increase butyl capacity was completed. Additional facilities were also provided for butyl at the Polysar Belgium plant in Antwerp and commitment made for warehouse and other service facilities. To meet long-term goals for SBR and oil-resistant rubbers, expansion of the Polymer Corporation (SAF) plant in Strasbourg, France was completed. Technical service facilities were augmented by the addition of ancillary equipment in Sarnia and a new technical service centre adjacent



to the Antwerp plant. This centre is available to Polysar customers for advice on product applications and for assistance in solving special technical problems.

In the area of product research and development, there was good reception in the market for bromobutyl, a new butyl derivative developed in Sarnia for use in tire inner liners and sidewalls. Butyl in an improved crumb form was also manufactured at the Belgian plant to better serve customer needs. Uses have been identified for a new liquid polymer in construction products, flexible moulding and pipe and tank linings. Development of this unique material is proceeding through various stages of commercialization.

LATICES

POLYSAR latex products are designed for a variety of uses in many industries. In addition to the large-volume high-solids SBR and carboxylated types, specialty products such as nitrile latices and vinyl pyridine latices are produced. Included in 20 distinct grades are latices for paper and paper-board coatings, adhesives, carpet and upholstery backing, foamed latex articles, oil-resistant applications, dipped goods and thread.

In 1971 the Latex Division achieved a satisfactory growth in volume of sales. As with rubber products, however, intense competition and resultant decline in prices adversely affected revenue and profitability.

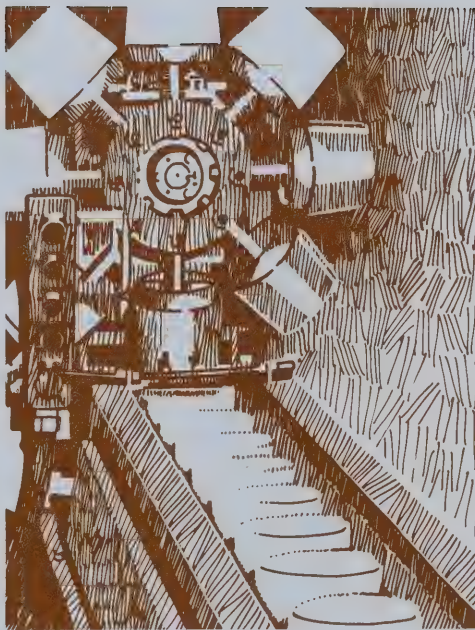
The Canadian market for paper coating latices was entered, consumption of carboxylated types by the textile industry increased in all areas and our market share of



high solids latices in foam applications improved.

This performance was made possible by an aggressive and innovative marketing effort and by capital expenditures for expansion or increased efficiency of latex production at the Sarnia plant and at the facilities of Polymer Corporation (SAF) in Strasbourg, France. Late in the year, Polysar Latex Inc. brought into operation its new unit in Chattanooga, Tennessee, U.S.A. Construction of the \$13.0 million plant commenced in 1970. Latex laboratories were provided in the technical service centre adjacent to the Antwerp plant of Polysar Belgium. They will play a key role in providing technical support for new POLYSAR products as they are introduced into the European market.

Significant growth is foreseen for the consumption of synthetic rubber latices,



particularly by the paper industry. Polymer, with manufacturing facilities in Canada, the United States and France, a wide range of products and strong development and technical service support, is in an excellent position to participate in this growth.

PLASTICS

Polymer has established a firm position in the plastics industry. It encompasses the manufacture of polystyrene, containers for bulk packaging, disposable food service products, protective packaging, and moulded plastics components for the furniture industry.

Sales of the Plastics Division in 1971 increased by over 75% from 1970, with growth in all products. Sales by Solar Chemical Corporation, Leominster, Mass. for a full twelve month period compared with only four months in 1970 and revenue from

two companies acquired during the year were significant factors in the increase.

Polytherm, a division of Republic Corporation, was acquired by Polysar Plastics, Inc. in March. This business, one of the largest of its kind in North America, produces disposable articles made from polystyrene foam, which is extruded and thermo-formed at facilities in Middletown, New York. The product line includes dishes and food containers used by schools, hospitals, institutions and take-out food-chains, as well as custom manufactured items for protective packaging.

Also purchased in 1971 was Decorative Components Inc., Forest City, North Carolina, which manufactures polystyrene structural and decorative parts for the furniture industry.

Late in the year a license agreement was concluded with a company in Spain for its exclusive use in that country of Polysar's polymerization process for polystyrene.

The plastics industry continues to be one of the fast growing industries in the world. Among the most important market areas are construction, packaging and furniture where present consumption is measured in billions of pounds per year and impressive growth is foreseen for the ensuing ten-year period.

In this industry, which is characterized by rapid volume growth, the need for improved products and processing technology, combined with new and imaginative application and replacement of other materials, there is excellent opportunity. Polymer intends to profitably share in this growth through expansion of present operations, further acquisition of end-product businesses and innovative use of its technology.



BUILDING SYSTEMS

Polymer's Building Systems Division will fabricate lightweight, completely serviced, reinforced concrete housing modules at a plant being constructed in Milton, Ontario. The UNIMENT system of construction has been licensed from Stressed Structures Inc. of Mishawaka, Indiana, U.S.A., in which Polymer acquired a minority interest in 1970.

The UNIMENT system uses chemically treated concrete pumped around high-tensile reinforcing steel in semi-automated precision steel forms. During curing the concrete expands under controlled conditions, thereby stressing the reinforcing steel members. By this means load-bearing walls can be made as thin as two inches, compared with the much thicker walls usual in concrete structures. It enables assembly line production of three dimensional modules of various lengths. Internal and exterior

finishing of the modules, including plumbing, wiring, doors, windows, and carpeting is complete before they leave the plant. The units, averaging 17 tons in weight, will be delivered to the construction site on tractor-trailers.

Construction of the plant was begun in October and is scheduled for completion in the spring of 1972. It will incorporate efficient, modern manufacturing techniques and will conform to all local and provincial anti-pollution regulations.

Because of its lighter weight, the UNIMENT module is easily adaptable to high-rise projects. It is particularly suitable to a new architectural concept "gallery-access housing", which combines optimum land use with individuality and privacy.

Polymer's entry in the building systems field is an example of the application of new technology and an industrialized approach to a highly fragmented industry that serves a

basic need. It is also an example of U.S. technology being acquired for development and application in Canada.

INFORMATION PROCESSING

Polymer is involved in computer services through its major interest in Com-Share Limited, a Canadian-owned and operated company in Rexdale, Ontario. Com-Share provides on-line services through its large third generation Sigma 7 computer system. Local dial-up facilities are provided in Montreal, Ottawa, Toronto, London, Hamilton, Kitchener/Waterloo, Sarnia, and Windsor. In 1971, a subsidiary was established in the United Kingdom.

During the year, Com-Share moved to strengthen its basic Canadian operations in the on-line segment of the information processing industry, to assemble highly qualified staff and to expand into other market areas. Despite the effect of business



conditions on industry-wide expenditures in engineering and other technical fields, a good rate of growth was maintained by increased emphasis on specific service packages.

The opening of a computer centre in the United Kingdom marked an important milestone in the company's development. From its location in London, England the centre provides service to major industrial areas. Com-Share has been well received in this market.

In 1971 the company launched its own version of the Xerox Sigma 7 operating system on its Toronto computer. In so doing it became one of the few organizations in the world to operate the Xerox universal time sharing system (UTS) commercially. With proven capabilities and an organization which now employs some 80 professional people and provides services to a fast growing list of customers which already numbers

close to 200, Com-Share is well placed to participate in the growth of this industry.

RESEARCH AND DEVELOPMENT

During the year, research and development activities received close attention from the point of view of need, cost and orientation. Four significant changes were introduced in this vital corporate activity. Each line of business was given direct control of the management of its own supporting research and development activities. The supporting functions such as pilot plants, analytical and compounding laboratories, application semi-works equipment, library and other services were centralized into one department to provide efficient service to all product lines. A decision was taken to concentrate efforts in the fields to which the corporation is now committed. Finally, that part of the total

program concerned with longer range and higher risk projects was organized to be managed at the corporate level, under the Vice President, research and development. This last arrangement calls for assembly of staff to pursue each particular project, followed by transfer of programs and selected staff to the businesses when feasibility has been demonstrated.

The net effect of this restructuring has been to provide research and development support directed to the rapid and effective response to customer needs in each committed field of activity.

ENVIRONMENTAL CONTROL

Polymer has long been aware of its obligation to the community and to society to effectively manage its waste materials. It has continually allocated capital funds and incurred operating expense for controls as the needs appeared. Polymer's objective in waste management is to operate in such a way that it is considered a welcome member of the communities in which it is located.

As early as 1950, Polymer, in co-operation with local Sarnia industry, undertook a continuing program to monitor air and water quality. Much equipment was installed and many operating improvements made over the years as a result of these efforts. As the tempo of industrial activity increased, the general public became more conscious of the effect of the environment on their society. In 1966, Polymer appointed a full time co-ordinator to ensure that needs were assessed and priorities established compatible with both community requirements and economic feasibility. Since that time, impressive progress has been made. Contribution to air burden has been reduced by over 80 per cent to levels that meet or better present standards. Solid wastes deposited as land burden, have been



sharply reduced to a level acceptable to provincial authorities. Reduction of water-borne wastes received high priority in 1970 and 1971 and an intensive program is achieving significant results.

Since 1968, capital spending on waste management projects at the Sarnia plant has been about \$1.0 million yearly and in 1972 spending of about \$2.3 million will be required. Operating expense directly attributable to waste management activities is now running at approximately \$1.0 million per year.

In Europe, as in Canada, there is increasing concern for the environment. At the Strasbourg, France plant efforts continue to reduce atmospheric emissions and water effluents. Since its construction in 1962, capital spending for waste management has amounted to about \$1.5 million and operating expenses now exceed \$0.4 million per year.

Statistics for the butyl plant in Antwerp, Belgium are equally impressive. There is expected commitment of close to \$0.5 million for projects at these locations in 1972.

Pollution control at five plants of the Plastics Division in Canada and the United States has also been pursued. New construction such as the latex plant at Chattanooga, Tennessee, and the Building Systems plant in Milton, Ontario incorporates built-in controls to meet the most stringent standards.

The future is clear - more stringent regulations, continually higher standards of effluent control, and inevitably higher costs to meet these standards.

MANAGEMENT

During the year, Eugène Laflamme who had served for 9 years and Fraser W. Bruce with 6 years service retired from the Board of Directors. Their counsel and association with Polymer affairs made an important contribution to corporate progress. These positions on the Board were filled by the election of Pierre R. Gendron and Pierre Lorange, both of Montreal.

In May, E. R. Rowzee was elected Chairman of the Board of Directors and Chief Executive Officer of the Company. At the same time, I. C. Rush was elected President and a member of the Board of Directors.

A reorganization was effected later in the year. R. E. Hatch was named Group Vice President with responsibility for the operations and direction of the world-wide involvement in the plastics, building



systems and information processing businesses. J. R. Provo and R. W. Suters continue as Vice President, plastics and Vice President, building systems respectively. R. S. Dudley was appointed Group Vice President with total responsibility for elastomers and latices on a world-wide basis. R. J. Lhonneux, who joined the staff of Polysar Belgium in 1963 and has been General Manager of the Antwerp plant since 1966 was appointed Vice President. Resident in Europe, he is responsible for Polymer's operations outside North America. C. A. McKenzie continues as Vice President, North and South America operations. Other key appointments were: G. Bracewell, Vice President, corporate planning; E. J. Buckler, Vice President, research and development; Stanley Wilk, Vice President, corporate finance; H. A. Graham, Director of corporate personnel.

EMPLOYEES

Negotiations for a new collective agreement between Polymer (Sarnia) and the Oil, Chemical and Atomic Workers International Union were concluded in September. The agreement, consistent with the oil industry pattern, covers a two-year period to September 7, 1973. Favourable labour - management relations continued at all other locations.

During the year, a reorganization of operations was necessary. It resulted in some curtailment of staff in all locations with the major effect being on production, research and administrative staff at the Sarnia location.

The decision to reduce staff was taken with reluctance, especially in view of the Company's history of employment stability. Nevertheless, it was a decision that had to be made, so that Polymer could continue to be a vigorous, healthy corporate citizen in its several communities. A number of steps were taken to assist the affected employees and their families. At Polymer Corporation Limited, the parent company, a very liberal termination package was developed and improvements made to the pension plan to minimize financial impact. Early retirement was chosen by a considerable number of employees. Some were reassigned to different types of work within the Polysar Group of companies. A placement centre was established in Sarnia and continues to function successfully, working with the affected people, government agencies, other services and industries across Canada to seek out employment possibilities.



the polysar group of companies

**POLYSAR TECHNICAL
SERVICE CENTRE N.V.**
ANTWERP, BELGIUM.
Technical service laboratories.

**POLYSAR
SKANDINAVISKA A.B.**
GÖTEBORG, SWEDEN.
Marketer of POLYSAR
products in
Scandinavian countries

POLYSAR NEDERLAND N.V.
AMSTERDAM,
THE NETHERLANDS.
Investment company

**POLYSAR
HANDELMAATSCHAPPIJ N.V.**
AMSTERDAM,
THE NETHERLANDS.
Licensing company

POLYSAR BELGIUM N. V.,
ANTWERP, BELGIUM.
Manufacturer of rubbers.

**POLYMER CORPORATION
(SAF),**
LA WANTZENAU
(BAS-RHIN), FRANCE.
Manufacturer of rubbers
and latices.

Technical service office of
**POLYSAR
INTERNATIONAL S.A.**
VIENNA, AUSTRIA.

POLYSAR ITALIANA S.P.A.
MILAN, ITALY.
Marketer of POLYSAR
products in Italy.

**POLYSAR
INTERNATIONAL S.A.,**
FRIBOURG, SWITZERLAND.
World-wide marketer of
POLYSAR products and
technology licences.

Technical service office of
**POLYSAR
INTERNATIONAL S.A.**
TOKYO, JAPAN.

**SYNTHETIC ELASTOMERS
DEVELOPMENT S.A.,**
FRIBOURG, SWITZERLAND.
Licensing company.

Other Interests

HULES MEXICANOS S. A.,
MEXICO CITY, MEXICO.
Producer of rubbers for Latin America

COM-SHARE LIMITED,
REXDALE, ONTARIO, CANADA.
Computer Services.

Legend

- PLANT LOCATIONS
- OFFICES
- DISTRIBUTORS

financial statements

Polymer Corporation Limited and subsidiary companies

Consolidated Statement of Income and Expense / for the year ended December 31, 1971

Thousands of Dollars

Income	1971	1970
Net sales of products and services	\$170,247	\$150,571
Other	4,425	6,108
	<u>174,672</u>	<u>156,679</u>
 Expense		
Cost of sales	147,967	125,052
Selling, administration and research	20,888	17,905
Interest on long-term debt	3,025	3,020
Interest on short-term debt	2,055	1,571
	<u>173,935</u>	<u>147,548</u>
Net income before following items	737	9,131
Current income tax	1,181	1,749
Deferred income tax	(1,619)	(1,168)
Minority interest in subsidiary companies	(97)	(9)
Net income before extraordinary items	<u>1,272</u>	<u>8,559</u>
Extraordinary items (Note 7)	779	1,499
Net Income	<u>\$ 493</u>	<u>\$ 7,060</u>

Consolidated Statement of Retained Earnings / for the year ended December 31, 1971

Thousands of Dollars

	1971	1970
Balance at beginning of year	\$ 87,808	\$ 83,748
Net income for the year	493	7,060
	<u>88,301</u>	<u>90,808</u>
Dividends	500	3,000
Balance at end of year	<u>\$ 87,801</u>	<u>\$ 87,808</u>

The accompanying notes are an integral part of the financial statements.

Polymer Corporation Limited and subsidiary companies

Consolidated Statement of Source and Application of Funds /
for the year ended December 31, 1971

Thousands of Dollars

Source of Funds	1971	1970
Net income	\$ 493	\$ 7,060
Depreciation and other items not requiring a current outlay of funds	<u>15,588</u> 16,081	<u>14,227</u> 21,287
Long-term debt	9,646	5,850
Deferred acquisition obligation (Note 4)	—	1,106
Realized from sale of capital assets	<u>338</u> 26,065	<u>116</u> 28,359
Application of Funds		
Investments	2,010	4,624
Fixed assets	15,860	24,269
Other assets	2,413	1,417
Deferred income tax	1,789	1,717
Reduction of long-term debt	7,915	6,560
Dividends declared	<u>500</u> 30,487	<u>3,000</u> 41,587
Decrease in Working Capital	<u>\$ 4,422</u>	<u>\$ 13,228</u>

Polymer Corporation Limited and subsidiary companies

Consolidated Balance Sheet as at December 31, 1971

Thousands of Dollars

	Assets	1971	1970
Current			
Cash		\$ 2,122	\$ 1,410
Short-term investments, at cost which approximates market		13,254	25,523
Accounts receivable, less allowance for doubtful accounts		52,190	49,098
Inventories, at lower of cost or net realizable value:			
Finished products		26,050	25,866
Prime materials and intermediate products		8,621	8,492
Operating and maintenance supplies		<u>8,151</u>	<u>7,225</u>
		42,822	41,583
Total Current Assets		110,388	117,614
Investments (Note 2)		11,899	11,168
Fixed			
Land, buildings and equipment, at cost		254,646	239,926
Less: accumulated depreciation		<u>162,274</u>	<u>149,383</u>
		92,372	90,543
Deferred Charges		3,749	3,460
Patents and Technology, at cost less amortization		<u>2,441</u>	<u>929</u>
		<u>\$220,849</u>	<u>\$223,714</u>

The accompanying notes are an integral part of the financial statements.

On behalf of the Board
E. R. Rowzee, Director
I. C. Rush, Director

Liabilities and Shareholders' Equity	1971	1970
Current		
Short-term loans	\$ 21,176	\$ 28,991
Bills payable	—	3,244
Accounts payable and accrued liabilities	27,019	20,202
Income and other taxes	1,550	1,899
Long-term debt due within one year	8,057	6,270
Total Current Liabilities	57,802	60,606
Long-term Debt (Note 3)	39,358	37,628
Deferred Acquisition Obligation (Note 4)	1,381	1,106
Deferred Income Taxes	4,157	6,114
Equity of Minority Shareholders in Subsidiary Companies	350	452
Total Liabilities	103,048	105,906
Shareholders' Equity		
Capital Stock:		
Authorized — 3,000,000 common shares of no par value		
Issued — 2,000,000 common shares fully paid	30,000	30,000
Retained Earnings	87,801	87,808
Total Shareholders' Equity	117,801	117,808
	<u>\$220,849</u>	<u>\$223,714</u>

We have examined the above Consolidated Balance Sheet and the related Consolidated Statements of Income and Expense, Retained Earnings and Source and Application of Funds and have reported thereon under date of February 11, 1972 to the Minister of Supply and Services.

A. M. Henderson
Auditor General of Canada

Peat, Marwick, Mitchell & Co.
Chartered Accountants

Polymer Corporation Limited and subsidiary companies

Notes to Consolidated Financial Statements / for the year ended December 31, 1971

1. Basis of Consolidation and Exchange Translation:

The consolidated financial statements reflect the financial position and the results of operations of Polymer Corporation Limited and all of its subsidiary companies, except as referred to in note 2. All intercompany balances and transactions have been eliminated in consolidation. The 1970 figures have been reclassified in certain instances to give effect to the accounting presentation used in 1971. Translation of foreign currencies into Canadian dollars has been effected as follows: current assets and current liabilities substantially at rates of exchange in effect on December 31; all other assets and liabilities at the rates prevailing when the assets were acquired or the liabilities incurred; and income and expense at rates in effect during the year except depreciation, which was translated at the rate prevailing when the expenditures on the related fixed assets were made.

2. Investments:

	Thousands of Dollars	
	1971	1970
9½% Revenue Bonds due July 1, 1985, at cost	\$ 2,010	\$ —
In other companies, at cost less amounts written off (Note 7), approximating underlying equity	8,820	9,885
In partly owned subsidiary company not consolidated, at equity	<u>1,069</u>	<u>1,283</u>
	<u>\$11,899</u>	<u>\$11,168</u>

The consolidated statement of income and expense includes total income from investments in other companies of \$529,000 and a loss of \$214,000 being the Corporation's share of the loss sustained by the partly owned subsidiary which will be fully consolidated in 1972 after completion of payment for a majority shareholder interest.

3. Long-term Debt:

	Thousands of Dollars
LOANS REPAYABLE:	
In French francs during the years 1972 to 1980 (Fr. 44,125,000) bearing interest at rates varying from 6.5% to 9.25%	\$ 8,914
In Belgian francs during the years 1972 to 1977 (Fr. 430,500,000) bearing interest at rates varying from 2.5% to 6.50% and secured by a mortgage on certain land and buildings	9,433
In Swiss francs during the years 1975 and 1976 (Fr. 25,000,000) bearing interest at the rate of 6.875% until the latter part of 1973 and variable thereafter with a minum of 6.75%	6,244
In United States Dollars: In equal annual instalments during the years 1972 and 1973 (U.S. \$2,000,000) bearing interest at 4.5%	2,080
In monthly instalments through 1989 (U.S. \$3,643,000) bearing interest at rates varying from 5.25% to 8.25%, (U.S. \$610,000) bearing interest at 10.75%, and to the extent of U.S. \$2,016,000 secured by mortgages on certain fixed assets	4,329
7.5% DEBENTURES:	
In Canadian Dollars: Serial Debentures Series A repayable in equal annual instalments during the years 1972 to 1974	3,000

Sinking Fund Debentures

Series A maturing November 1, 1987 - pursuant to sinking fund requirements, annual payments of \$650,000 are required during the years 1975 to 1986, with a final payment of \$5,200,000 in 1987	13,000
OTHER	415
	<u>47,415</u>

Less portion of long-term debt due within one year included in current liabilities

8,057
\$39,358

4. Deferred Acquisition Obligation:

Effective August 31, 1970, the Corporation acquired all of the outstanding common stock of a foreign corporation at a price to be determined with reference to the earnings experience of such corporation during the five years ended August 31, 1975. The ultimate purchase price as determined, which is subject to certain minimum and maximum levels, is payable, with interest at U.S. prime bank rates from September 1, 1975, over a five-year period commencing January 1, 1976. The deferred acquisition obligation represents the future minimum obligation at its current discounted value and the discount is being amortized against income over the period ending January 1, 1976.

5. Commitments:

During 1970, a subsidiary company entered into a 15-year lease, guaranteed by the Corporation, of a plant which commenced operation during the fourth quarter of 1971. The company has an option to renew the lease for a further 15-year period, or it may purchase the plant and property during the leasing period for a price equal to the then outstanding lessor's debt incurred in connection with construction. The net lease agreement requires payment of

approximately \$1,267,000 during 1972, increasing to approximately \$1,800,000 annually thereafter through 1985.

At December 31, 1971, the Corporation and its subsidiaries were committed to spend approximately \$13,000,000 on acquisition of capital assets.

6. Pension Plans:

The unfunded past service liability of the pension plans relating to employees of the Corporation and its subsidiaries, as currently amended, is being funded over the remaining period of eighteen years with annual charges against operations of approximately \$380,000.

7. Extraordinary Items:

Thousands of Dollars

	1971	1970
Write-down of investments and other assets	\$1,275	\$ 277
Currency revaluations - (profit) or loss	(496)	2,117
Adjustment of prior years' income tax provisions	—	(895)
	<u>\$ 779</u>	<u>\$1,499</u>

8. Supplementary Information:

The accounts for 1971 include the following amounts: depreciation \$13,559,000 (\$13,144,000 in 1970); amortization of deferred charges and patents and technology \$756,000 (\$1,107,000 in 1970); remuneration of 13 directors of the Corporation as directors \$19,000 and remuneration of 13 officers of the Corporation as officers \$532,000. Two officers of the Corporation are also directors.

Auditors' Report

The Honourable James Richardson
Minister of Supply and Services
Ottawa, Canada

Sir:

We have examined the consolidated balance sheet of Polymer Corporation Limited and its subsidiaries as at December 31, 1971 and the consolidated statements of income and expense, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In compliance with the requirements of section 77 of the Financial Administration Act, we report that, in our opinion:

- (a) proper books of account have been kept by the Corporation and its subsidiaries.
- (b) the consolidated financial statements of the Corporation and its subsidiaries:
 - (i) were prepared on a basis consistent with that of the preceding year and are in agreement with the books of account,
 - (ii) give a true and fair view of the state of their affairs as at December 31, 1971, and
 - (iii) give a true and fair view of the income and expense for the year ended December 31, 1971, and
 - (iv) present fairly the source and application of their funds for the year ended December 31, 1971, and

(c) the transactions of the Corporation and its subsidiaries that have come under our notice have been within the powers of the Corporation and its subsidiaries under the Financial Administration Act and any other Act applicable to the Corporation and its subsidiaries.

A. M. Henderson
Auditor General of Canada

Peat, Marwick, Mitchell & Co.
Chartered Accountants

February 11, 1972

Polymer Corporation Limited and subsidiary companies

Ten Year Review / Thousands of Dollars

Consolidated results	1971	1970
Net sales and other income	174,672	156,679
Expenses and special items	174,617	149,038
Income taxes	(438)	581
Net income	493	7,060
Dividends	500	3,000
Net income retained in the business	(7)	4,060
Cash generation	16,081	21,287
Capital expenditures	19,541	29,302
Depreciation provided	13,559	13,144
Net income % of net sales and other income	0.3	4.5
Financial position		
Net assets		
Current assets	110,388	117,614
Current liabilities	57,802	60,606
Working capital	52,586	57,008
Plant at cost	254,646	239,926
Less accumulated depreciation	162,274	149,383
Net plant	92,372	90,543
Investment in other companies	11,899	11,168
Other assets	6,190	4,389
	<u>163,047</u>	<u>163,108</u>
Financed by		
Capital stock	30,000	30,000
Retained earnings	87,801	87,808
Long-term debt	39,358	37,628
Other	5,888	7,672
Other data		
Salaries, wages, incentive compensation and employee benefits	45,062	39,523
Number of employees at year-end	4,414	4,277
Total rubber and resin production, millions of pounds	856	801

1969	1968	1967	1966	1965	1964	1963	1962
159,970	143,901	128,927	127,538	117,503	114,291	97,806	87,457
140,607	134,242	121,618	113,989	104,616	100,548	83,188	68,408
<u>5,540</u>	<u>2,621</u>	<u>1,497</u>	<u>2,328</u>	<u>2,584</u>	<u>4,293</u>	<u>5,480</u>	<u>8,765</u>
13,823	7,038	5,812	11,221	10,303	9,450	9,138	10,284
6,000	3,000	3,000	4,500	4,500	4,000	3,250	3,000
7,823	4,038	2,812	6,721	5,803	5,450	5,888	7,284
29,370	22,300	18,059	23,010	21,547	19,584	18,142	18,111
9,123	11,071	21,854	26,338	8,877	7,810	18,267	23,960
13,585	13,169	10,270	8,658	8,829	8,929	7,341	5,382
8.6	4.9	4.5	8.8	8.8	8.3	9.3	11.8

117,246	90,989	79,402	75,914	72,049	67,216	58,560	46,507
<u>47,010</u>	<u>31,686</u>	<u>26,625</u>	<u>33,599</u>	<u>20,091</u>	<u>21,730</u>	<u>26,920</u>	<u>16,010</u>
70,236	59,303	52,777	42,315	51,958	45,486	31,640	30,497
223,122	214,183	209,417	187,960	163,008	156,226	151,256	133,619
<u>143,617</u>	<u>130,218</u>	<u>122,596</u>	<u>112,539</u>	<u>102,845</u>	<u>94,356</u>	<u>85,570</u>	<u>78,596</u>
79,505	83,965	86,821	75,421	60,163	61,870	65,686	55,023
6,544	6,557	6,503	6,528	4,297	2,784	220	
<u>4,079</u>	<u>5,612</u>	<u>6,785</u>	<u>5,809</u>	<u>4,843</u>	<u>5,881</u>	<u>6,813</u>	<u>5,135</u>
<u>160,364</u>	<u>155,437</u>	<u>152,886</u>	<u>130,073</u>	<u>121,261</u>	<u>116,021</u>	<u>104,359</u>	<u>90,655</u>

30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000
83,748	75,826	73,131	70,319	66,245	60,442	54,992	49,105
38,339	40,146	40,853	21,957	20,088	21,519	15,384	7,817
8,278	9,466	8,902	7,797	4,928	4,060	3,983	3,733
34,302	33,152	32,464	29,578	25,621	23,575	21,699	19,222
3,799	3,722	3,976	3,911	3,605	3,433	3,310	2,972
732	685	617	593	555	532	436	370

The Polysar Group is a large, multinational, dynamic organization with manufacturing and marketing activities extending into most of the major nations of the world. POLYSAR products are sold in 90 countries.

Serving a world of polymers, of people using polymers, Polysar technical and sales representatives are strategically stationed throughout the world to meet customer needs. Communication with customers is aided by advertisements which appear in many languages in trade and business journals.

Shown here are a few of the 1971 messages.

[illegible][illegible]

Polysar - Il centro del cerchio

Trascurtando da una cerchia intorno al nostro stabilimento di Strasburgo, nel nord-est della Germania, si può raggiungere tutta l'Europa. La rete polysar, la Polysar, nell'arco del cerchio, in ogni posizione periferica, vi porta dove volete. E' come il magnete che attrae le particelle elementari, vi porta a casa o a lavoro. E' l'unico sistema produttivo nel mondo capace di cambiare in qualsiasi momento la sua struttura, di far nascere o di far morire un punto di Europa. E' il nostro, nostro sempre, nostro solo sistema Polysar.

POLYSAR SAATCHI & SAATCHI

[illegible][illegible]

In years of meeting the demands of our customers we've come across some pretty interesting applications for plastics.


For example, why not a stretch line of dent pulp and plates to eliminate static electricity in hospitals, examinations and clinics? Or, why not a new line of Impact Plastics seven capital letters appropriate for these applications?


Kayson is well qualified to offer advice and materials. We are a prime source for a full range of polyethylene, ethylene, polypropylene and ABS And, we provide on-the-spot customer service second to none in quality.

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 made in the United States








Polysar...partout

Polysar continue d'effectuer des progrès constants. C'est un des éléments de notre
 politique qui a permis de nous faire connaître, d'être connus et d'être reconnus
 rapidement dans les secteurs techniques et commerciaux de nos activités. Nous
 avons des agents en France, en Italie, en Belgique, en Suisse, en Espagne, en
 Autriche, en Espagne et en Belgique. En outre, nos produits sont vendus dans 200
 et auront peut-être l'occasion de vous rencontrer dans votre région.



-partout-

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 Société POLYSAR France 19 rue de France - 92 427 43 55 GENEVE POLYSAR NEULI

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binder in the coating of the paper on which
this report is printed.*



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